MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BAC 3644 – TAXATION 2

(All sections / Groups)

2 MARCH 2017
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

Jenny is a Malaysian permanent resident. She acquired a piece of land for RM439,200 on 13 August 2012. Jenny incurred the following expenses in acquiring the land :

	RM
Legal fees	2,930
Stamp duty	5,685
Cost of levelling the land	50,430

In February 2013, the land was partially damaged by flashed flood and she was paid an insurance compensation of RM25,600. Again, in April 2014, the land was flooded, and she received a further compensation of RM16,000.

In September 2014, Jenny received an offer to sell the land to Ali , who paid a deposit of RM6,500. However, due to lack of loan facility, Ali decided not to pursue the acquisition and Jenny forfeited the deposit of RM6,500.

A dispute arose regarding the title to the land from a third party, and Jenny had to engage a lawyer to defend her right to the land. The legal fee was RM8,750.

Subsequently, another buyer agreed to purchase the land for RM656,790 , and he signed the agreement with Jenny on 16 October 2016. The payment was settled on 16 November 2016. The title was transferred to the buyer on 20 December 2016. In order to dispose of the land , Jenny had incurred the following expenses:

	RM
Brokerage fees	8,659
Valuation fees	6,670
Advertisement	1,280

Up to the time of sale, Jenny had incurred an interest charge of RM62,130 on the mortgage loan she took to buy the land, and had also incurred legal fees of RM3,560 to a lawyer to handle the disposal of the land .

Required:

i) **Compute the real property gains tax (RPGT) arising from the disposal of the land by Jenny. Clearly identify the disposal price, the acquisition price and the tax rate applicable to the disposal (round up all figures) .**

(15 marks)

Continued ...

ii) **Advise Jenny as to how she can minimize her exposure to RPGT, taking into account the holding period of the land.**

(5 marks)

[Total: 20 marks]

QUESTION 2 (20 MARKS)

Sunpower Sdn. Bhd. (SSB) was incorporated in 2012 and set up a factory in Kajang, Selangor. SSB produces promoted products which are eligible for the investment incentive such as the pioneer status or investment tax allowance under the Promotion of Investments Act 1986. SSB plans to apply for the investment incentive starting from year 2018 and has prepared the following financial projections in respect of its manufacturing business:

Year ending 31 December	2018 RM'000	2019 RM'000	2020 RM'000	2021 RM'000
Adjusted income /(loss)	(1,200)	1,400	3,300	4,900
Capital allowances	900	800	1,100	1,700
Interest income from Singapore remitted to Malaysia	200			
Capital expenditures incurred:				
Land	1,900			
Factory building	3,900			
Plant and machinery	2,000			400
Office equipment		100		

Required:

a) **Assuming Sunpower Sdn. Bhd. intends to apply for the pioneer status for the year of assessment 2018 to 2021:**
   i) **Compute the chargeable income**
   ii) **Determine the amounts (if any) to be credited to the exempt income account.**

(10 marks)

b) **Assuming Sunpower Sdn. Bhd. intends to apply for the investment tax allowance for the year of assessment 2018 to 2021:**
   i) **Compute the chargeable income**
   ii) **Determine the amounts (if any) to be credited to the exempt income account.**

(10 marks)

Note: Computation of capital allowances is not necessary. Show all workings.

[Total: 20 marks]

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QUESTION 3 (20 MARKS)

a) An Australian pharmaceutical company has set up a subsidiary in Malaysia under the name of Visionaire Sdn. Bhd. (Visionaire) . In year 2016, Visionaire made the following payments:

i. Lease rental payment of RM85,000 to its parent company in Australia for the use of special moveable equipment.

ii. Interest payment of RM100,000 to Maybank Bhd. (Malaysian resident bank) on loan taken to purchase equipment to be used in the business in Malaysia.

Required:

Analyze whether each of the payments will be subjected to withholding tax.

(5 marks)

b) Core Business Sdn. Bhd. (a resident in Malaysia) is a construction company. In 2016, the company entered into an agreement with a company in Japan (a non-resident in Malaysia) for the transfer of technical know-how/assistance, and supply of heavy machinery. For the year ended 30 September 2016, the following expenses were paid by Core Business Sdn. Bhd. to the Japanese non-resident company:

Particulars	RM	
Technical advice fee	55,000	(Paid on 1 August 2016)
Royalties	70,000	(Paid on 30 June 2016)
Supply of heavy machinery	860,000	(Paid on 31 July 2016 upon delivery of heavy machinery)

Required:

i) **Analyze whether each of the above expenses is subjected to withholding tax and determine the amount to be held (if any).**

(6 marks)

ii) **Discuss the tax consequences if Core Business Sdn. Bhd. fails to remit the withholding taxes to the Inland Revenue Board of Malaysia (IRBM).**

(4 marks)

Continued...

c) BLC Sdn. Bhd. (BLC) owned a mango farm and made up its accounts to 31 December each year. In January 2010, BLC constructed a store with the total cost of RM135,000 to keep the fruits and it was used during the year of assessment 2010. BLC continued to work on the mango farm until 30 April 2015. On 1 May 2015, BLC disposed of the store to MNG Farm Sdn. Bhd. for RM140,000.

Required:

Compute the agriculture allowance claimable in respect of the store in each of the years of assessment from 2010 to 2016 by both BLC Sdn. Bhd. and MNG Farm Sdn. Bhd.

(5 marks)
[Total: 20 marks]

QUESTION 4 (20 MARKS)

BeSkills Bhd. (BSB), is a Malaysian resident company with a paid-up capital of RM5.6 million, is engaged in the manufacture and sale of rubber products and hardware. The company makes up its accounts annually to 30 June. The income statement of BSB for the financial year ended 30 June 2016 is as follows:

Income Statement for the year ended 30 June 2016

	Note	RM	RM
Revenue	1		29,800,000
Cost of sales	2		(15,107,490)
Gross profit			**14,692,510**
Less: Expenses			
Salaries and wages		4,527,000	
Employees Provident Fund	3	950,670	
Professional fees	4	84,000	
Administrative expenses	5	501,000	
Lease rentals	6	154,000	
Freight and insurance	7	1,100,000	
Foreign exchange loss (net)	8	98,000	
Depreciation		1,070,000	
Advertising and marketing expenses		996,000	
Research and development	9	109,000	
Miscellaneous expenses	10	1,311,000	
Financial expenses		194,000	
Loss on sale of assets		95,000	(11,189,670)
Profit before taxation			3,502,840

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Notes:

1. The revenue includes RM350,000 in respect of rental income from a warehouse that was built and completed in 2010.

2. Cost of sales includes a provision of RM180,000 for stock obsolescence and a provision for warranty of 1% based on the revenue for the period .

3. The Employees Provident Fund contributed by the business at the rate of 21% of the total salaries and wages.

4. Details of professional fees:

Particulars	**RM**
Audit and accounting fees	18,000
Consultation fee for a new project	32,000
Legal fees for recovery of trade debts	17,800
Legal fees for the termination of new supply contract	16,200
	84,000

5. Administrative expenses include compensation of RM38,000 paid to a customer for late delivery of components. The following expenses were also included:

Particulars	**RM**
Bad debt written off in respect of a loan made to a former director who is in financial difficulties	30,000
Installation cost of new generator	27,000

6. Lease rentals include lease payments for one lorry (licensed as a commercial car) and a car for the company executives (not for commercial use). Lease payment for lorry commenced in August 2015 at RM3,500 per month. The cost of the lorry was RM105,000. The car lease commenced in January 2016 at RM5,200 per month. The cost of the car was RM255,000.

7. Freight and insurance includes the amount paid by BSB to Jaminan Insurance Sdn Bhd, a Malaysia incorporated insurance company. The premium of RM189,000 was paid as the insurance for goods imported for use as raw materials and RM92,000 was paid as the insurance against the damage of goods in transit between the port of entry and its factory.

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8. The foreign exchange loss (net) comprises of the following:

Particulars	RM
Realized loss (on settlement of amounts due for stocks acquired)	46,000
Realized loss on the purchase of machinery	22,000
Unrealized loss (on settlement of trade debts)	30,000
Total	**98,000**

9. The company incurred an amount of RM109,000 in carrying out research on an approved project on green technology by the Ministry of Communication and Information Technology of Malaysia.

10. Miscellaneous expenses include the expenditure incurred in renovating the main office as follows:

Particulars	RM
Fixed partitions for new executive offices	40,000
Moveable dividers for marketing and finance departments	60,000

Also included was RM7,000 in respect of the entrance fee to a golf club for the managing director; a fine of RM12,000 for evading Customs Duty in respect of goods imported ; and an approved cash donation of RM25,000 to Welfare Department under the Ministry of Welfare.

Additional information:

The company has an unabsorbed capital allowances brought forward from the year of assessment 2015 amounting to RM90,800 and balancing allowances for the year of assessment 2016 amounting to RM26,000. The capital allowances for the year of assessment 2016 was RM288,000.

Required:

Based on the information given, compute the chargeable income of BeSkills Bhd. for the year of assessment 2016.

Note: Your computation should start from the 'profit before taxation'. You should indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation.

[Total: 20 marks]

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QUESTION 5 (20 MARKS)

Sanjay has a textile store, Cantek Textile Sdn Bhd in Klang, Selangor. It closes its account 31 December every year. Sanjay is under investigation by the Inland Revenue Board of Malaysia (IRBM). He has provided the following information in respect of himself and his family:

Net assets as at:	**RM**
31 December 2015	310,000
31 December 2016	490,000

Sanjay declared the following income for in the year ended 2016:

Income	**RM**
Profit from business	200,000
Rental income	5,000

The following additional information is available from Sanjay's other records:

a) Sanjay sold a car in December 2016 to his brother for a net sum of RM20,000. The car was acquired in 2010 for a total cost of RM52,000.

b) Sanjay also sold an apartment in 2016 and received a net sum of RM180,000 from the sale. The apartment was acquired by him in 2008 at a cost of RM165,000.

c) Shares acquired for RM17,000 in 2013 were sold for RM29,000 in 2016.

d) Sanjay received RM28,000 in 2016 from his late father estate. He provided the evidence for this transaction.

e) In May 2016, he had bought a lottery ticket and won a prize of RM5,200 cash. He was able to produce the evidence.

f) The following private and personal expenses were incurred by Sanjay in the year ended 31 December 2016:

Private and personal expenses	**RM**
Leisure trip	15,000
Medical expenses	13,600
Income tax	12,000
Life insurance premium	3,800
Family expenses	19,000
Total	63,400

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Required:

a) **Using the information provided by Sanjay, determine whether there is any discrepancy in the accounts for the year of assessment 2016 by using the capital accretion method.**

(13 marks)

b) **Explain your findings in (a) and what would be your advice to Sanjay?**

(7 marks)

[Total: 20 marks]

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APPENDIX 1

TAX RATES AND ALLOWANCES

i) Tax rates of resident company

Companies with paid-up capital <= RM2.5 million (at the beginning of the year of assessment)	Tax rate
On the first RM500,000	19%
On the remainder	24%
Other companies	
All chargeable income	24%

ii) Tax rates of non-resident company

All chargeable income	24%

iii) Withholding tax rate

Type of income	Year 2016 Rate of Tax (%)
Interest	15
Royalty	10
Special classes of income	10
Public entertainers	15
Section 4(f) income	10
Contract payment	10% + 3%

iv) Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

Continued ...

v) Agriculture and forest allowance

	Capital expenditure – Agriculture	Rate of allowance (%)
(a)	Clearing and preparation of land for the purposes of agriculture	50
(b)	Planting of crops on land cleared for planting	50
(c)	Construction on a farm of roads or bridges	50
(d)	Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e)	Any other building	10
	Capital expenditure-Forest	
(a)	Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b)	Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

vi) Real property gains tax

Holding Period	Citizen or Permanent Resident	Company	Non-Citizen or Non-Permanent Resident
Within 1 year	30%	30%	30%
Within 2 years	30%	30%	30%
Within 3 years	30%	30%	30%
Within 4 years	20%	20%	30%
Within 5 years	15%	15%	30%
Beyond 5 years	0%	5%	5%

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